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Worksheets

Module Four: Worksheet 1- Trading Sectors and Market Indexes: Swing Trading Big Patterns



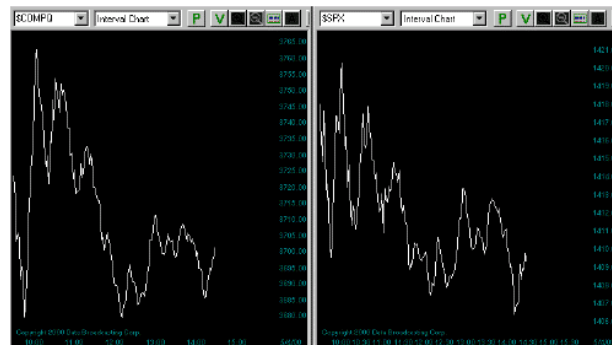
- The Powerpoint worksheet below can help you learn how to select and enter/exit stocks for Swing Trading based on Relative Sector Strength and Weakness using sector index charts
- You should complete this whenever you are considering entering a new Swing Trade position

An important thing to keep in mind is the **relative sector strength** of a group of stocks before buying or selling. For example, on one day the internet (\$GIN sector) may be up and the retailers (\$RLX) may be down. Use the relative strength to help you sell into strength and buy off of bottom bounces and into new breakout plays.

Look at these examples. The overall market has sold off a bit and is consolidating, as you can tell from the black charts to the right. \$COMPQ-Nasdaq Composite and \$SPX S&P.

Now, look at the bottom three sector green charts below, \$GIN - Internet, \$RLX, Retailers, \$IXBT, Biotech. Which of these three is the strongest? (\$IXBT) Which is weakest? (\$RLX).

How do you trade them? Well, I'd look for strength in a biotech stock (eg MLNM HGSI DNA GENE) to see if there's any more momentum left. I wouldn't be trading internet or retailers today.



You should use this worksheet (or a similar one you make yourself) to help you map out a game plan to enter and/or exit swing trades based on relative sector strength.

Directions:

1. Print out a copy of the worksheet below and fill it out for 3 different sectors you want to trade. A good first activity would be to go research and find all the sector indexes, then 2-3 stocks within each sector that you are interested in trading.
2. Use this worksheet to help you identify relative strength patterns and when you should enter/exit your positions:

Swing Trading Major Sectors Worksheet

Goal: Be able to capitalize on different sector strength

Step One: Identify Three Sectors You Want to Play

In the space below, take a minute to define three sectors (eg internet, semis, retailers, telecom, software etc) that you will be playing stocks within. Write down the symbol of each sector so you can track it on your charts (note: there's a link to a listing of all indexes on the members home page):

SECTOR	Symbol:	SECTOR	Symbol:	SECTOR	Symbol:

Now, identify 2-5 stocks within each sector that you will keep an eye on each day for trading opportunities. Example, in the internet sector (symbol \$GII), you might want to watch AOL, Yahoo, eBay, DCLX, CMGI.

Stocks I will watch/trade in this sector (enter symbols):	Stocks I will watch/trade in this sector (enter symbols):	Stocks I will watch/trade in this sector (enter symbols):

Step Two: Play Relative Strength Patterns

Now that you've defined the sectors and stocks within each sector you want to play, make a check mark next to the type of pattern you will be watching for to help you enter your trade. Use a sheet like this one daily or weekly to help you map out a game plan for entries and exits. Remember to sell into strength when you have a decent profit, and to exit quickly when your stock loses a key support level.

Which of the three sectors is strongest Today? What's my play within this sector? (check one)

- ☐ Bottom Fish/Bounce
- ☐ In a Trading Range
- ☐ Buying Breakout

Module Four

Swing Trading Strategies

Back to
MODULE 4

Worksheets

Module Four: Worksheet 2: 5-Day and 10-Day Swing Trading Patterns



- The Powerpoint worksheet below is designed to help you track and trade 5- and 10-day swing trading patterns more successfully.
- Complete it as either a 'papertrading' exercise or whenever you enter and exit actual trades.

One of the things I want to encourage you to develop is a mental "library of chart patterns" that you use to help figure out when to buy and sell stocks for swing trades. Once you've established that, you need to then keep track of which of these are more effective for you than others.

For example, you may be great at buying breakouts above trading ranges but not so good at correctly buying 'bottoms'. You need to trade at what you do a good job of, so use this worksheet to identify which trading patterns you're currently using and which ones you're good at.

You must stop trading chart patterns that you have mixed or unsuccessful results with. If you're bad at picking bottoms, then don't do it anymore, for instance (or do it less).

Go where you're getting the best results. It takes discipline to stop trading like you have in the past, but if it's costing you money then look at some alternative ways to trade...

Explore with new stocks, new strategies until you find something that works for you consistently. Each trader must develop their own style, based on their individual temperament and skills.

Here's the three patterns we've been stressing in swing trading as the most effective ones to play:

Breakout Above Resistance



2. Use this worksheet to help you identify where your strengths are in playing the patterns. Do 80% of your new trades with the pattern you're most consistently profitable at.

[illegible]

Worksheets

Module Four: Worksheet 3- Timing Your Buys for Swing Trades



- The Powerpoint worksheet below can help you learn how to decide when to buy a stock for a swing trade, to develop better timing skills.
- You should complete this worksheet when you are considering entering a new Swing Trade position.
- A previous worksheet helped you decide on sectors and type of play, this one will help you decide on number of shares to buy and the timeframe and profit target/stop loss you will plan for this swing trade.

- One thing you need to get in the habit of doing regularly is to develop a trade plan prior to entering any trade. This should be brief, easy to use notes to yourself that you use to help you define the parameters of your trades.
- For some reason, having things written down in front of me always gives me a lot more discipline to keep stops and take decent profits than I would have if I were just trying to keep everything in my memory.
- Also, if you are playing several stocks at once (I currently have 14 open swing positions, for example), it becomes next to impossible to keep everything straight from memory alone.
- A few well-placed notes, whether done on a spreadsheet or the simple Windows notepad.exe (my favorite, just put a shortcut to notepad.exe on your desktop), can significantly help your trading results.
- Gaining a good sense of timing is a key trading skill. I'd encourage anyone who's new to trading, or those trying to get back in the game after losing, to swing trade 100 shares at a time for a 2-day to 10-day timeframe. In fact, I think everyone should have at least one active swing trade open at all times, so you know the emotions of being 'in a trade'. Also, I'd discourage people to do short swing trades until after you're experienced and consistent in your trading.

You should use this worksheet (or a similar one you make yourself) to help you develop specific trade entry timing information for swing trades.

Directions:

1. Print out a copy of the worksheet below and use it to help you define better timing for your swing trades.

2. You can also use this worksheet for your day trades, adjusting the timing down to intraday periods vs days.

Swing Trading Timing Worksheet

Goal: Be able to improve your timing for swing trade entries and exits

Complete this worksheet for each new position you are swing trading.

Stock Symbol:	Trading Range Analysis:		Stop Loss and Profit Target:
	10-Day High for this stock:	3-month High for this stock:	Profit target right under previous high is:
			
Time "Stop Loss": How long will you wait (max) before selling this stock if it has not reached your profit target? (rec. = 3 wks)	10-Day Low for this stock:	3-month Low for this stock:	Stop Loss right under previous low is:
			

TIMING SWING TRADE IMPROVEMENT PLAN

Let's put together a plan to improve our timing for our swing trades. Below are the different factors you want to define prior to getting into a swing trade:

Main factors:

- Min/Max Time in Trade
- # Shares Traded
- Profit/Loss Per Trade
- Optimum Trade Entry
- Optimum Trade Exit

Timing Entries: Should be based on one of the 3 patterns we've looked at. For each of your next 3 trades, identify what the reason was, from a timing perspective, for you to enter the trade at the time you did:

-
-
-

Timing Exits: Should be based on the stock taking out a trailing stop that you've placed on the trade, or the stock has stopped advancing in the time period you're trading (eg it went from 20 1/2 to 23 and has stayed flat for 3 days). Identify why you exited your next 3 trades in the space below:

-
-
-

**Module
Four**

Swing Trading Strategies

Back to
MODULE 4

Worksheets

Module Four: Worksheet 4- Portfolio Management: Balancing Your Swing Positions



- The Powerpoint worksheet below is designed to help you balance multiple open swing trade positions.
- You should complete this worksheet when you are considering maintaining several open swing trades at a time.
- After trading for awhile, you will see multiple swing trade opportunities present themselves. You will not want to limit yourself to single trades at this point, and will want to manage a small portfolio of open swing trades simultaneously, as your capital and experience grow.
- Note that this is different from the bad habit of keeping a "dog pound" of losing trades that tie up capital and energy. Make sure to have 'time stops' on all your trades and exit positions that aren't performing within a reasonable time frame.
- You can (and should) eventually use a combined trading style in which you have a percentage of your portfolio in low-risk long term growth mutual funds/index funds, a percentage allocated to swing trading, and a percentage allocated for day trading.

- During your first couple of years trading, you'll want to experiment constantly, working on developing a trading style that works best for you. This also means you should discipline yourself to try new ways of trading.
- We present many different trading variations at DTU, in the hopes that you'll be able to find some of the trading styles useful and profitable in helping you make good trading decisions.
- Remember to treat trading like a business, and as a smart business owner, you want to minimize costs and maximize profits. Would you start a new small business by spending money on lots of things without any business plan or market research? Those that do help account for the 80% failure rate of new small business failures. Same exact thing in trading - many fail because they do not do their hard work and research and stop losses that are necessary to succeed. You have to do your work and not enter a position and "hope it goes up"...you have to know why it may go up, when you'll exit, and how you'll manage the financials.
- So many traders are lazy and look for easy money in the markets. Most lose. To guys like me, who do their work and treat this as a business. You simply have to work hard. Period. Gamblers should go to Las Vegas, at least they get free drinks and flashing lights while they lose money.
- Traders who are serious, and I know most of you are since you've joined DTU, should expect to work 4-5 times harder than they currently are before they can expect to take profits consistently, for a living. That was my learning curve, and I'm a former quality engineer/statistician from the Ford Motor Company. Charts were my work life...and trading is much harder than that ever was.
- Eventually, you get to a point where you're not surprised by anything the market does, you're skeptical of most trade situations and use a criteria list to rule out trade entries, and go deep when you see a window of opportunity present itself that you feel will work out. It becomes kind of routine, the emotions go away, you know what you're looking for, you make a living at it. The good part is, the hours and pay are a lot better. And the places where you can live. It all counts.

Activities

Module Four: Activity 1 - "Swing Trading Research: Picking 12 Stocks for Swing Trades"



- This activity is designed to help you research and choose 12 stocks that you think would be good for swing trading.
- Refer to [Module 4 Lesson 4](#) first.
- Papertrade a portfolio of swing trade stocks, identifying the entry, exit, trading range, shares you would trade, and stops.

The GOAL for this activity is for you to be able to wisely choose 12 stocks that make for good swing trading candidates.

Directions:

1. Take some time to do research on anywhere from 70-100 stocks and narrow the list down to a dozen or so that would be good for swing trading. I like stocks like WMT T F HRL HET VISX HAS ANN BBI and many others.
2. Include both Nasdaq as well as NYSE-listed stocks in your group. Remember, NYSE listed stocks are generally less volatile than Nasdaq stocks, and make for 'safer' swing trades, in general.
3. Make sure your stocks have decent analyst ratings (best ones are less 1.5 rated), maybe check IBD for 80/80 AAA type stocks as well.
4. Write down the following:

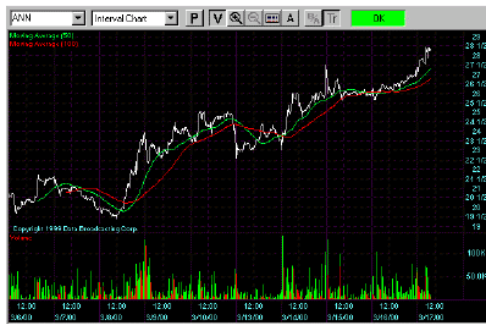
- stock's 10-day support and resistance
- type of trade it is (bottom fish, buy on breakout, uptrend, etc.)
- how many shares you would buy (100-300)
- how long you expect to be in the trade for
- analysts rating for the stock
- 2 reasons why you personally think you should buy the stock here

5. Now, papertrade these 12 stocks over the next 2 weeks and see how you'd do. Remember, you can easily be profitable even if you're only 50% right, as long as you manage your stops and exits correctly. Where you sell is more important than where you buy.

6. Choose one of the stocks that you should have had a "time stop" for...which one is it? Would you really have sold at this stop, or would you continue to hold on to it indefinitely "til it came back up"? Be honest. Work through these things to help yourself become a more skilled swing trader.

Hint: week of April 17th is probably a "bottom fishing" type week :)

Look at the 10-day charts below. Which of them would be good to buy here? Which would be good to sell? Remember, you want to trade with the trend and the crowd, if it "looks overbought" to you, others probably feel the same way, so it may be a good sell/short point.



Each chart could be traded profitably, somehow... the key is to know when to go long, when to short, when to cover and when to sell. We'll look more at technical analysis for swing trades soon.

Module Four

Swing Trading Strategies

[Back to MODULE 4](#)

Activities

Module Four: Activity 2 - "Bottom Fishing on Small Shares"



- This activity is designed to help you learn how to make "bottom fish" plays on reversals after a stock has consolidated in a low range, or on a pivot on an extreme oversold condition.
- Remember that "buying bottoms" is the most risky of all types of plays, and you must use small shares (100-200) and a tight stops (under the most recent bottom) to succeed using this trading style.
- I am never able to pick the exact bottom or sell the exact top, nobody is...remember, as a profitable trader all you want is a "piece of the action" in your direction, after you've identified a high-probability chart setup.
- Remember, if the stock loses the support level that you bought at and starts to head down, Never hold it overnight...sell it and buy again either the next day or when buyers come back into the stock, whichever occurs first. Overnight holds on downtrending stocks are asking for an opening gap down, which will be much more costly than the stop you had wanted to use. Only hold bottom fish plays overnight for a swing when the close of the day is higher than what you paid for the stock. Please Remember this and use Discipline for these plays.

The GOAL for this activity is for you to learn how to bottom-fish swing trades relatively safely with minimum downside risk.

Directions:

1. **Start by looking at several dozen 3-month charts for stocks that have sold off in recent weeks. Determine what the cause of the selling is:** was it due to bad earnings, bad news, or random sell pressure? Rarely should you buy a dip on bad earnings, they usually have further to fall (I speak from personal experience here!).... wait for a 2nd or 3rd bottom to form, then buyers to come in, before buying a stock that gaps down on the open on bad earnings news. Review recent headlines for a clue as to why people have been selling the stock.
2. Look for either a **reversal** (fast pivot off a >15% selloff) in the price and/or a **breakout above a consolidation** in price. That is, if the stock has sold off, has stayed flat for a few days or even weeks, and has now started to come back up through the resistance level.
3. **Do Not pick stocks that have been slowly selling off in a long downtrend.....**the best bottom bounces are reversals off of volatile stocks...some examples include RIMM RNWK DCLK SPLS, you want volatility, stocks that have recently attracted both buyers And sellers, as seen by a choppy up and down trading pattern. Don't buy stocks whose 3-month chart looks like ETYS, for example (Jan-May 2000). No buyers have emerged, only steady selling...that's not bottom-fishing, that's called "throwing good money into a loser".
4. **Your activity here is to papertrade with 100-share lots of 12 stocks that you are choosing for "bottom fish" swing plays.** You only want to use 100 shares in this because of the risk involved in bottom fishing....if a position goes against you 2-3 points it won't damage your capital too bad...if you're trading 300-1000 shares and get a 2-point gap down that would cost you \$600 - \$2000 ...not a pretty picture. Your #1 goal is to preserve capital from the pros and other traders who want to take it from you.
5. Carefully identify and write down the following:
 - **The trading range:** 3-month and 5-day support and resistance levels for these stocks,
 - **Your entry price**
 - **Number of shares** you bought (100) for each trade
 - **Your stop loss** that you will hold to (the most important part of your trade), and
 - **Your profit target**, which should be right under the previous major resistance level.

Notes: Hold these papertrades no longer than 3 weeks, and evaluate your progress, using "paper money"....evaluate your trading record....when during the 3 weeks did you sell each of the positions? What profit or loss did you take on each of the 12 trades?

I find that holding yourself to a 3 week time frame is useful because it forces you to look for a good exit point, and to take a stop more effectively than if you are saying to yourself "well I'll just keep it til it comes back up, no matter how long it takes"... You need to put your capital to work for you, not tied up in an underperforming stock.

Swing Traders' Keys to Bottom Fishing Success:

- 1) **Wait for a breakout above consolidation area/trading range**
- 2) **Look for pivot off extreme oversold conditions (>15% on the day)**
- 3) **Put your stop loss in right under the support/previous low**
- 4) **Use buying volume as an indicator as to "how right" you are on the long side**
- 5) **Never take home a losing first-day position, if it drops from where you bought on day 1 then take the stop and look for a better re-entry on a following day.**
- 6) **Don't chase a swing trade, look to enter before 11am, or in the last hour of the day**
- 7) **Set your profit target right under a previous resistance level.**

Remember that swing trading is much more dependent on correct technical analysis than is daytrading, in which reading Time & Sales and your Level 2 chart are important.

Learning how to correctly identify breakouts, trends and support/resistance lines is critical to becoming a successful swing trader.

Candlestick charting also helps in swing trading TA.

Activities

Module Four: Activity 3 - "Trading Breakouts and Uptrends"

- This activity will help you practice entering and exiting swing trades when buying strength has caused the price to increase.
- As in any swing trade, knowing the key 10-day and 3- or 6-month support and resistance levels is helpful, as you can better determine when the stock will "look overbought" or "look oversold" to other traders. Using support/resistance with 20/50/200 MA lines helps in this as well.
- Also be sure to look for fluctuations in the volume of the stock over time, eg at what price points does the volume of the stock increase dramatically? Can you predict when the pivots/reversals are based on volume patterns?
- One of the important keys to success in swing trading is to properly identify support and resistance lines using your chart software, and being able to keep stops and exit with decent profits based on your careful analyses.
- Remember, the stock market seems largely random at times, so it's important to keep stops and take profits when they are there.

The GOAL for this activity is for you to learn how to swing trade breakout patterns and uptrends effectively.

Directions:

1. **Look at the chart patterns below, showing both uptrends (SPLS) and breakouts (VISX). How would you play these stocks from this moment on? Is there any trade potential left in either one?**
2. Scan your own 10-day stock charts and look for stocks that trade on decent volume (over 500K shares/day) with similar movement (eg at least 15-20% movement in the trend or breakout). Choose Five (5) of your own stocks to follow, and print out the charts, labeling them either Uptrend or Breakout, based on the pattern you see.
3. Next, draw trendlines, support and resistance levels for these stock charts using a ruler.
4. How would you trade each of them from this point forward? For each of your charts, identify the following:
 - **Major and minor support levels**
 - **Major and minor resistance levels**
 - **An optimal entry point for each of the stocks: would you wait for a pullback or buy sooner?**
 - **Where a stop loss should be set if the trade were to be entered on the next trading day.**
 - **Where your profit would be taken - what's your exit target?**
 - **Other notes that you want to make.**

This activity should help you develop an eye for uptrends and breakout patterns.

Papertrade the stocks for the next 10 days, using just 100-share lots, and see which of them would be winning vs losing trades.

Be sure to document your money management practices for these stocks as well, eg where would you have taken a stop loss, and where would you take profits, for each of your 10 stocks?

At the end of the 10 days, calculate your net profit/loss, and jot down your 'lessons learned' - what would you do differently next time? What did you do effectively?

Uptrend patterns: SPLS

You can see that SPLS made a cup and handle pattern from 6/5 through 6/8, with a breakout and subsequent uptrend starting on 6/9.

The trade entry would be on the breakout, at 15 1/2, on 6/9, and using trailing stops throughout the uptrend pattern.

We look to exit the position right under decade resistance at 20, so we take some profit here in the 18s, and use a trailing stop at 18 for the rest of the position.



Breakout pattern: VISX

Here, you can see that the stock was in a choppy trading range for several days, finally breaking out above resistance at 22 1/2.

The trade entry would be at 22 1/2, with a stop at 22.

The exit would be right under 'decade' resistance, or 30. This stock could be just an overnight hold, or could be held for additional longer-term gains.



Activities

Module Four: Activity 4 - "Playing Positive News and Earning Release Trades"

- This activity will help you practice entering and exiting swing trades in response to favorable and negative news and earnings reports that are made public
- As in daytrading, you wouldn't, for example, buy an open gap up on positive earnings or news, a good recent example is CSCO, it gapped up and sold off on positive earnings recently.
- In swing trading, our goal is to enter at a favorable price in a trend, a channel, or an 'oversold' condition, selling to buyers who entered later than you did, for a profit, several days or weeks later
- We'll have you practice swing papertrading both earnings and news plays in this activity.
- In general, stocks tend to selloff after earnings releases more often than they gap up, so I never hold overnight into an earnings release.
- Unless you have a realtime news feed and can jump on a news-release related trade within 1/2 point of the news release, do not chase it, a good example is XING in the week of August 28th, it ran from 12 to 23 then back down to 14 the next day....
- It's tough to play positive news releases unless (and it's a perfectly valid trade method too, by the way), you keep a realtime news ticker open and buy a stock within a minute (or less) of a favorable story breaking the news wires. You need to buy a realtime news feed for this
- Buyers haven't been coming in to scoop up oversold stocks as much this year, so dead cat bounce plays are tougher, again wait for volume buying signals before entering a trade off the bottom (or what you think is a bottom).
- In earnings releases, you should look to sell open gaps up and buy gaps down, again though this needs to be done with a finely-tuned set of market indicators (eg stochastics, RSI etc) for the intraday charts you're using, don't attempt these trades if you don't have a professional rig set up (eg 2 monitors, L2, time&sales 1 to 3-minute intraday charts on esignal or RTIIL etc)...Why? Because you'd be trading at a disadvantage, against those of us who invest in those toolsets.
- Also in this category are Upgrades and Downgrades: a secret tip : look to buy stocks in the same sector that selloff in sympathy with a stock that's been downgraded, eg if you're playing the retail sector and YHOO gets 2 downgrades, the whole sector may take a hit, buy one of the other (good) stocks in the sector (eg EBAY) that also gets taken down that day... the downgrade had the effect of "throwing out the baby with the bathwater", so you want to buy a quality stock that got sold off "in sympathy with" the stock that got downgraded (this is usually best for either a scalp daytrade or a swing trade, if the sympathy selloff is >5-7%).
- Papertrade a handful of these as well, it's easy to look at the day's winners/losers about 20 minutes into the trading day...or, look at the most active on ISLD premarket around 9am... see what the crowd's reaction is, in a trend, to the news that causes a stock to sell off before the open, are they buying yet, or still selling? Then prepare to trade:

The GOAL for this activity is for you to learn how to successfully trade News and Earnings Release plays.

Directions - EARNINGS RELEASE PLAYS:

1. **Look at an earnings release calendar (click link) to see what companies are releasing earnings in the next few days. Pick 3 that you're familiar with to watch.**
2. Look at the **10-day and 6-month charts** for this stock a day or two before the release is due, using bigcharts.com You want to identify the same information as you usually do:
 - **Major and minor support levels**
 - **Major and minor resistance levels**
 - **Average intraday trading range (eg BYSN has a 2-point range)**

Papertrade the stocks into the earnings release - note that stocks will often run up (or down) in anticipation of earnings for 5-10 days prior to the actual release, at which time they often retrace to where they were at earlier (making new 52-week lows for bad earnings, or gapping up (seldom) on good earnings).

Two type of earnings release trades to look for: 1) **jump on the trend** going into the earnings release, eg AMZN is going to release earnings on September 30th, watch the stock price carefully from Sept. 21st to the 30th to look for a trend.... or 2) after the earnings release comes out, **buy a bounce if it tanks and then gets buyers** (eg AMZN is 42 prior to earnings release, they miss by a penny, it opens up the next day at 36 1/2.... look to buy it if it breaks over 37 before lunchtime etc..)

3. Ok, now see how you do on playing the earnings release for several stocks, and document your lessons learned: which strategy would've been the right one? Did you play that one or the opposite one? Most importantly, how did you manage your risk and trade sizes throughout the trade? If you were wrong, did you get out fast vs. hope for a turnaround? ok

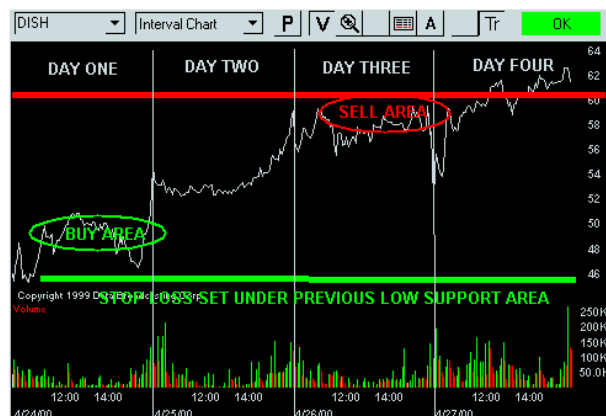
Directions - NEWS PLAYS (little known trading tips in here, read it):

1. Be careful with these, they are very difficult, they are more suited for daytrading than swing trading.
2. #1 Mistake to Avoid: Let's say SBUX announces that they've been chosen as a key supplier for a major retailers' coffee shops. They release this information Wednesday at 4:30 pm. The stock had been trading at 37... after hours it runs to 42. Thursday morning it has settled down to 41 to open. You do Not buy the gap up at 41. Dont do it. Wait til at least 10:15 or so to see if it still gets even more buyers... more likely, it would sell down to 40, consolidate around there for awhile, maybe go back up to 41 by the end of the day.... the only time you would buy a gap up is if it keeps running on good volume for at least 20 minutes or so early in the morning... usually the gap has "satisfied the buying urge" of the public and sellers/shorters will appear, selling into the momentum until the stock reverses at 10am... again these are general patterns.. but they happen more often than not. The point? Do not buy gaps up unless the stock takes out a new high on heavy volume... be careful with these.
3. How to play news: let's say you've got www.theflyonthewall.com or www.jagnotes.com or another service... and, most importantly, you've got a realtime news feed that gives you headline news releases throughout the trading day. Here's what to do:
4. The instant a headline comes out that has Major Financial Impact on a stocks' price (eg announced new strategic partnership, wins major contract, releases new product/service, has major drug/technology patent approved) then pull up your 1-minute chart and time and sales window. You do not yet know what impact this news will have on the share price. Much of the news that comes out has no effect on stock prices, you're waiting to cherry pick a headline that has a major financial impact on a company.
5. Buy the stock as soon as it makes a new High for the day after the earnings release. Why wait? Because what you think is good news may, for other reasons, be seen as a negative by the analysts following the stock, who will issue sell program orders, selling the stock off... so, wait to make the buyers prove to you that there's buying interest in the stock.
6. For shorting, almost the opposite is true... if you see a "Firetire Recall" news headline then you may be able to get a short off... because of the uptick rule, however, it's much more difficult to get a short sale off for bad news, the stock price will plummet, so short sellers need to respond immediately to negative news headlines and fire off a short as soon as possible (eg within 15-30 seconds after the news hits the wire), you can't wait for a new low of day, since you may not get an uptick to short on... you might, it's just not as easy.
7. Okay, papertrade the news releases with your realtime news feed too. Are you a swing trader? That's why you're reading this, right? Well, news releases can still be played profitably from a swing trading perspective, the key to look for "unresponded to" news... eg if theres a release that has genuinely positive financial impact on a company, but for some reason the stock hasn't gone up, you might want to buy into it and see if it goes up during the next 10 trading days or so. I've personally seen many stocks, usually the cheap ones (eg \$10-\$20) that aren't heavily traded, pop up 2-3 days after the news has come out. They aren't as closely watched, so the fund managers who pour money into the stocks may take a couple of days to decide to buy in. This is a good buy opportunity, before the big money comes in. Of course, if the news comes out and the stock is still flat 2 weeks later, then sell and move on.

Activities

Module Four: Activity 5 - "Scaling In and Out of Your Swing Trade Positions"

- This activity will help you practice adding to and selling off positions you have in a single stock.
- It's wise to use what might be called a size scaling approach to manage your swing trades. You initiate a position with a certain number of shares, then add to (or subtract from/sell) the position based on profits you're taking and major swing support and resistance levels.
- A good guideline is: add to winning positions, not to losing positions (eg don't average down, or do so only for stocks that keep price support off a bottom of a well-defined 1-2 month trading range)
- Also, a 'reverse pyramid' as previously mentioned is a good strategy, eg buy 500 shares DELL at 32, add another 300 at 34 and a final 200 at 35 1/2.... sell 500 at 37, sell 300 at 36 3/4, sell the final 200 at 35 7/8 on the way back down as it sells etc.... like a rollercoaster, you want to add the most weight to your position at what you think the bottom is, then add a bit more as it keeps going up, then sell out a major piece with a good profit as the "trade potential" decreases and selling is more likely, then fade out the rest of your position on the way down, locking in profits.
- This technique is useful, I've added and subtracted as few as 50-100 shares at a time (for expensive stocks eg PHCM)... to manage your risk and "hedge" as the price moves for or against your position. It does generate more commissions, but that's generally insignificant... you shouldn't be constantly churning your swing trades, eg 1-2 buys or sells per day per stock at most... usually I'll buy a position, maybe add to it if it gets over a key breakout area, put a trailing stop at the breakout point, sell some of the initial position if it looks like it's teetering on the edge of selling off, etc....
- Some of the types of stocks that are ok for swing trading are ROST BBI SCCC SPLS NOVLT WMT T etc... ones with a fairly steady trading range that you can get in and out of relatively safely... remember you probably should trade slower-moving stocks for swing trades if you're a newer trader, don't swing trade an EXDS ISLD etc unless you're experienced in risk and trade management.
- Take a look at this chart below, which you saw earlier in [Module 4 Lesson 6](#). How would you do a "scaled position swing trade" in this stock, DISH? (eg buy 500 DISH at 46 1/2... then what ...??)



The GOAL for this Next activity is for you to learn how to successfully Scale in and Out of swing trading positions during a 1- to 3 week time horizon.

Directions - Papertrading a SCALED-IN/SCALED-OUT SWING TRADE:

1. Choose a stock whose 10-day chart has at least a 10% trading range.... eg a \$50 stock with a \$5 range (it's traded in a range or trend from 48 to 53)..

2. Paper-trade how you would manage a trade entry and exit, varying the size of your position such that you enter the trade with the largest size, and add to it if the stock is going in your direction. Of course, you need to also identify where you would stop out, this should be the "fastest stop" you take in the position, as it is the largest position size you take, eg 300-500 shares, don't let it go more than 1/2 point against you... wait to rebuy later...
3. Ahead of time, identify where key support and resistance areas are, and at what price point and level you'd sell your stock out at... where will you sell the most shares? Where will you keep that last 100-200 to see if it retests a breakout point?
4. This takes a lot of practice, and is a very important skill to master. Many new traders, myself included at first, make their trades as "all-or-nothing" trades, eg I'll buy 500 shares and sell 500 shares. That's it. ... The better approach is to work like a market maker does, eg start with a 300-share position, add another 100 to it if it keeps going up, add a final 100 if it's making new highs, then sell 300 when the momentum starts to fade etc... this can be an extremely powerful swing and daytrading technique and I encourage everyone to learn to master it.

A few more signals you should also be looking for when scaling in and out of a trade:

- **Volume patterns:** keep a very very close eye on relative volume during a short term trend, either swing or daytrades... volume = voting... so, if you see a lot of selling volume, then you should also be a seller, quickly... if you see buying volume then don't chase, enter on a pullback if it looks right to you.
- **Earnings releases:** make sure in all swing trades that you are aware of when earnings will be released... I generally sell my positions off the day before earnings release and re-enter on a pullback (or tank) the morning after earnings are released, if volume reversal buying is apparent. There are occasional favorable gaps up on earnings releases, but I've found this does not occur nearly as often as a "why did it tank on good earnings" type play. I'd be more inclined to short into earnings releases than go long, particularly for stocks whose month over month earnings have been declining. (see www.bigeasyinvestor.com for summarized table of monthly earnings and share price /volume changes at the bottom of the "screen")
- **Market and Sector relative strength or weakness:** be sure to keep an eye on sector charts like \$GIN \$SOX \$RLX etc as well as the overall market to capitalize on strong or weak sectors, look at these charts in comparison with each other (and the "lead stocks" within each sector) as well as the specific stocks you are following.